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Financial Innovations for Microenterprises:
Linking Informal and Formal Financial Institutions
in Africa and Asia
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Abbreviations

APRACA (-NCC)	Asian and Pacific Regional Agricultural Credit Association (-National Coordinating Committee)
GO	Government organization
IFI	Informal financial institution
NGO	Non-governmental organization
RoSCA	Rotating savings and credit association
SCA	Savings and credit association
SHO	Self-help organization
SHPI	Self-help promotion institution

Abstract

Hans Dieter Seibel

FINANCIAL INNOVATIONS FOR MICROENTERPRISES: Linking Informal and Formal Financial Institutions in Africa and Asia

In developing countries financial services, including deposit and credit facilities for microentrepreneurs, are grossly underdeveloped, particularly in the urban and rural informal sector.

However, many of the poor have not accepted poverty as destiny. They make a living as microentrepreneurs; as members of self-help organizations (SHO), they jointly take the solution of their problems into their own hands.

Two types of SHO are widespread among microentrepreneurs: informal financial institutions (IFI), such as rotating and non-rotating savings and credit associations and daily deposit collection, and business associations.

As a result of the segmentation of financial markets into a formal, semiformal and informal sector, their effectiveness remains low: at the disadvantage of the microentrepreneur.

Through linkages between IFI/SHO and banks, which may include supporting services from NGO and GO, a financial intermediation system is created, with greatly enhanced financial services to microenterprises in the informal sector.

This intermediation system cuts down substantially on transaction costs with regard to depositing savings, credit delivery and repayment collection, both for clients and banks.

Savings mobilization among microenterprises is an essential basis for credit delivery within the linkage program. One part of the internally generated fund is used for direct relending; another part is deposited with the bank as collateral for bank refinance to the SHO as a credit guarantee group.

Program implementation may involve two types of institutional adaptation: of IFI/SHO to higher organizational levels and practices ("upgrading") while learning from banks; and of banks to their environment by simplifying procedures and taking the bank to the people ("downgrading"), while learning from IFI/SHO.

The linkage program initiates processes of communication and interaction between institutions in the informal, semiformal and formal sector, rather than promoting a particular model.

Essential operational elements are therefore procedural, rather than structural, such as local, national and international workshops for policy- and decision-makers from all participating institutions; survey & mobilization campaigns as a grassroots strategy; and training of IFI/SHO and bank staff.

There are five messages to policy makers:

- Include informal sector microenterprises in your target group
- Develop programs along commercial lines
- Utilize existing organizational and institutional resources
- Assist IFI/SHO of microentrepreneurs to link up with banks
- Combine savings mobilization with credit delivery.

National and international steering units deserve particular support for program planning, implementation and monitoring.

1. Introduction: The Small Businessman's Self-Help Bank in Népal and the Three Fallacies of Microenterprise Development

B. S. of Dhule Gaunda is a farmer in one of the poorest countries in the world, with a per capita income of US\$ 160. As it is difficult in landlocked Nepal to earn more than one's subsistence from farming, he decided to open a small shop. But where to find the start-up capital? For a bank loan, he did not qualify. He initiated a dhikuti of 25 members of various castes and ethnic origins, each one contributing Rs. 2,000 per month. As organizer, he was the first to receive the total sum of $25 \times 2,000 =$ Rs. 50,000 (US\$ 2,270): his start-up capital. There are only few microentrepreneurs in Western Nepal who were not members, at one time or another, in one or several dhikuti, a rotating savings and credit association (ROSCA) with a sophisticated system of fund allocation by secret tender bidding and of incremental interest charges. Over a two-year life cycle, total amounts of savings mobilized and credit delivered varying between US\$ 50,000 and 500,000 per group are nothing unusual. The dhikuti solves some but not all the financial problems of microentrepreneurs. Participants complain that there is no permanent loan fund which would be available in times of need; bidding makes investment planning difficult; and there is no recourse to sources of refinance. (Shrestha & Seibel, 1988)

Yet in developing countries microenterprise policies have been based on premises quite different from the dhikuti case, namely that,

- Microentrepreneurs are unable to organize themselves;
- they are too poor to save;
- they need cheap credit for their enterprises.

There were three major policy consequences:

- Development banks and special programs were set up for credit delivery, which neglected savings mobilization;
- credit was subsidized;
- credit guarantee schemes were set up by the state to cover anticipated losses.

The results were that,

- The scope of credit remained severely restricted, as there was no built-in growth factor which would have resulted from internal resource mobilization; small numbers of relatively large loans went to medium and large enterprises; the masses had no access to institutional finance;
- entrepreneurs were demotivated to repay and banks to screen their candidates and recover their loans, resulting in high default rates and in continuous program decapitalization;
- subvention led to misallocation of production factors.

Around 1980, a reorientation set in: Mounting international debts, increasing shortages of internal and external credit supplies and a growing dissatisfaction with state-nurtured and seemingly ineffective credit programs led to a rethinking of development policies, centering around such concepts as self-reliance and self-help, which in financial terms was to include savings mobilization. Development assistance was now to promote, not replace, self-help and personal effort.

At first, the new approach still bore the mark of the poverty premise. Therefore, self-help groups were to be created through outside initiative, and credit was to precede savings mobilization.

At the Third UN International Symposium on the Mobilization of Personal Savings in Developing Countries, held in Yaoundé, Cameroon, in December 1984, cognizance was taken of the widespread existence of financial self-help groups and their savings potential in the informal, or non-institutional, sector. It was concluded that,

"The main means of improving the performance of the non-institutional sector were policies directed to enhancing its links with the institutional financial sector." (UN 1986:13)

To achieve this objective, it was suggested,

- To carry out national surveys of informal financial institutions;
- to work out models and procedures of linkages between them;
- to design pilot projects to implement the models.

2. Problems and Objectives of Microenterprise Development

Microentrepreneurs in development countries may be poor; but they are able to save, and they are capable of forming their own self-help groups. Yet, despite wide variations, they usually face a number of fundamental problems:

(1) Most microenterprises have no access to institutional finance, technical assistance or special incentive schemes. This usually applies to microenterprises in both the formal and the informal sector. Markets of various types are segmented, with large enterprises in a privileged and small ones in an underprivileged position. Most microenterprises fall into the informal sector where they are ignored at best, or actively discriminated against, with measures ranging from extortion to physical elimination.

(2) Concessionary financial programs for microenterprises have largely failed. Economically they are not viable; in terms of impact, they reach but a minute proportion of their target group.

(3) In every country there is a wealth of human, organizational and financial resources. But they are usually not linked, and their potential remains largely untapped. Such resources include small enterprises, informal and formal financial institutions, non-governmental organizations and governmental agencies and programs.

(4) Existing financial programs for microenterprises face high transaction costs for both lender and borrower.

(5) Credit programs for microenterprises ignore savings as a means of internal resource mobilization and savings habits as a psychological basis for investment and repayment behaviors.

The solutions suggest in this paper and the guidelines offered for their implementation are geared at the following development objectives:

(1) Microenterprises of both the informal and the formal sector are to be included among the target groups of financial institutions and programs, without discrimination or privilege.

(2) Financial programs for microenterprises are to be developed by banks along commercial lines. Existing programs in which market rates are charged have proven to be economically

viable, to reach large numbers of small enterprises and to be capable of self-financing their own program growth. Prominent examples, which will not be presented here for lack of space, are KUPEDES of Bank Rakyat Indonesia with 3.6 million loans since 1984 and a long term recovery rate of 97.8% (7/1987) and BKK in Central Java with 4.8 million loans since 1972 and a recovery rate of 97.3% (12/1986).

(3) The whole network of human and institutional resources is to be used including self-help organizations of microentrepreneurs as delivery structures of their own making, both for financial and non-financial measures.

(4) Utilizing these resources, a financial intermediation system is to be built, linking informal and formal financial institutions. Non-governmental and governmental self-help promotion institutions (SHPI) may be included for additional supporting services.

(5) Financial programs for small enterprises are to include both a savings and a credit component, with systematic linkages between them.

3. The Target Group

The sustenance of the masses of the growing population in the developing countries is largely provided by microenterprises. Most of them - usually around 95% - are located in the informal sector, which has been growing, despite predictions of neoliberal and marxist theories to the contrary:

"The informal sector has proven a resilient feature of peripheral economies and has actually increased in size and scope in a number of them... It has not only occurred under stagnant conditions but also in countries experiencing high rates of industrial growth." (Portes & Sassen-Koob 1987)

In urban areas, the major subsectors are trade, crafts and small industries, transportation and gastronomy. In rural areas, agriculture is the major subsector (if included), followed by agricultural processing in cottage or home industries and by trade and crafts, usually as secondary activities.

Microenterprises serve vital functions in a developing

economy,

- supplying inexpensive goods and services to the masses;
- providing vocational training to illiterate youths and school-leavers;
- presenting a testing ground for entrepreneurial talent;
- providing a buffer during times of recession when larger enterprises fail to cope with foreign exchange and spare-part shortages.

The target group of this paper comprises all microenterprises; but a special emphasis is placed on those in the informal sector participating in IFI or similar SHO.

4. The Financial and Organizational Support System

There are many organizational and institutional resources in developing countries which have great potential for microenterprise finance. What stands in the way of their full utilization is financial market segmentation. There are formal financial markets for the upper 5-20% of the population, which fall under the control of state credit and related financial laws and are usually supervised by a central bank. They comprise central, commercial, development, savings and secondary banks as well as nonbanking institutions. There is a small but growing semiformal financial market, which comprises governmental and non-governmental organizations with their own financial programs. They do not fall under the credit law but operate with the approval of the state. Informal financial markets comprise financial self-help organizations (SHO), other SHO with secondary financial functions and individual financial brokers, such as moneylenders, deposit collectors and trade-, land- or crop related financial arrangements.

From a policy viewpoint, SHO are of particular importance. The globally most widespread type of association, which simultaneously falls into the categories of SHO and of IFI, are savings and credit associations (SCA; Bouman: ROSCA, for "Rotating SCA"). They are found in most Asian and African countries and in most culture areas or ethnic groups within them (Ardener 1964; Bouman 1979; Seibel & Damachi 1982).

Their main financial functions are,

- Accumulation and depositing of savings;
- granting of loans; and
- rendering of insurance services.

They may be found in urban and rural areas, among traders and market-women, farmers, fishermen and small industrialists, wage and salary earners, even among bankers. In recent decades, many SCA have expanded their activities to comprise saving and lending, joint work for members or non-members, house building and social insurance services for medical treatment, hospital fees, drugs, funerals, naming ceremonies, marriages, etc. Activities focus around one or several funds, which may be built up from regular contributions, entrance and registration fees, interest from loans, penalties and proceeds from communal production or hired labor. There is a strong tendency towards permanent organizations; some of them have been operating successfully for decades. Distinguishing between rotating and non-rotating associations and between associations with and without a loan or insurance fund, a typology emerges which tends to follow an evolutionary pattern.

Type I: Rotating savings association. Each member pays a fixed amount at regular intervals. In a rotating order, one receives the total at a time. A cycle is terminated when all members have received the total at least once. Then the next cycle begins. In most African countries, the concern for self-imposed forced savings is primary. When the credit element looms larger, as in most Asian countries, interest may be charged on an incremental scale, or competitive bidding may be used, turning the RSA into a ROSCA.

Type II: Rotating savings and credit association (ROSCA). Each member pays a fixed amount at regular intervals. Part of the contribution is allocated to one member at a time in a rotating order; another part is put into a general fund for loans, insurance etc.

Type III: Non-rotating savings association. Each member pays a fixed or variable amount at regular intervals. The contributions are deposited and paid back to the individual member at the end of the stipulated period.

Type IV: Non-rotating savings and credit association. Each member pays a fixed or variable amount at regular intervals. The income of the association from sources such as contributions, fees, penalties, joint business etc., is put into a fund, which may be utilized for loans, insurance and social services. The fund may be established for a specified or unspecified period. Contributions may or may not be paid back at the end of a stipulated period. Interest rates tend to be high as they provide an additional source of fund.

Though part of the informal financial sector and lacking legal status, most associations do possess organizational structure. Typically, they are headed by an elected executive committee; they have written rules and regulations, keep membership lists and practice some form of book-keeping. Local social control mechanisms effectively prevent defaulting or fraud, which plague so many formal credit programs.

Business organizations are an important part of the organizational support system in two respects:

- As self-managed trade and interest associations, they have the potential of building up or mediating any type of service for their members, including financial services.
- They may act as informal (and sometimes semiformal) financial institutions, raising funds from their members and extending loans.

Their number, spread and importance varies considerably, both sectorally and geographically. They are variously called trade, interest, occupational or employers' associations. They may be organized locally, regionally or nationally; they may be voluntary or compulsory; they may be formal, registered bodies, or they may be unregistered; and they may fall into the formal or the informal sector of the economy, occasionally into the semiformal sector.

National employers' associations of small entrepreneurs, Chambers of Commerce and Industry with a small businessmen's section and Chambers of Crafts (Chambres des Métiers) - the latter virtually nonexistent in the anglophone world - are typical examples of business organizations in the formal sector.

Guilds and unions of craftsmen, traders and market women,

transport and restaurant owners are common business organizations of microentrepreneurs in the informal sector. They may be registered or unregistered. Even when registered, they are typically not recognized by the state as representative bodies.

A few of them have demonstrated that they are capable of building up a system of services for their members; that they can raise funds of their own by mobilizing members' savings; and build up a credit system utilizing their own internally generated funds; and that they can link up with formal financial institutions or establish a financial institution of their own. Yet for the large majority of them, this is an unused potential.

5. Intervention Strategies for a Financial Intermediation System

5.1. Institutional Linkages: Linking Informal and Formal Financial Institutions and Self-Help Promotion Institutions

Transaction costs with regard to depositing savings, credit delivery and repayment collection are too high to permit a substantial expansion of the services of existing formal institutions to microenterprises, particularly among the poorer sections of the population. Financial institutions of the formal and the informal sector are largely unrelated. As a result, their potential is vastly underutilized; the financial needs of the microentrepreneurs are not adequately satisfied; the financial system remain underdeveloped. Substantial improvements require financial innovations based on an intermediation system built around IFI and SHO, which usually exist in many varieties and large numbers. The proposed intermediation system is to optimize the utilization of all institutions in the formal, semiformal and informal sectors involved in savings mobilization and credit delivery. It is also to include supporting technical and consultancy services.

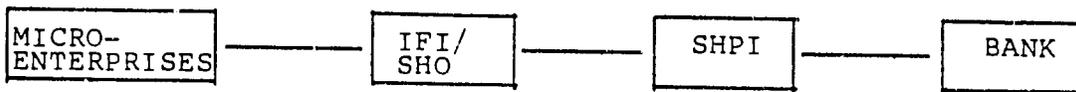
The intermediation system first encompasses an institutional linkage dimension, with links between IFI/SHO as primary intermediaries and banking institutions, in two alternatives:

- Either with direct links between IFI/SHO and banks;
- or with indirect links, mediated by private voluntary or governmental SHPI as secondary intermediaries.

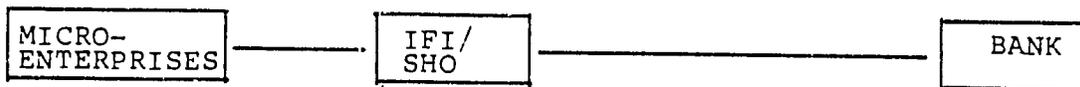
It is the ultimate and long-range objective of such linkages to make the individual microenterprise bankable and gain direct access to formal financial institutions. There are three alternative models in an evolutionary sequence:

Exhibit 1: Alternative institutional linkage models

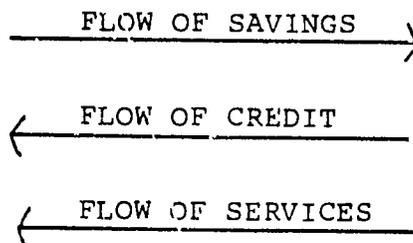
I. Indirect Linkage Model:



II. Direct Linkage Model:



III. Direct Access Model:



In the course of evolution, the role of IFI/SHO may change from that of a financial intermediary to credit guarantee group, consultant and referral agency. In the case of lack of legal status of a SHO, a bank may prefer a model of direct credit delivery to the microenterprises, with the SHO acting as a credit guarantee group and as an agent of savings and repayment collection.

5.2. Financial Linkages:

Linking Savings Mobilization and Credit Delivery

As savings without credit lead to demotivation, resource deflection and inadequate financing of small enterprises; and credit without preceding savings leads to haphazard loan spending, to risky business ventures and to poor repayment morale, we propose a model of linking savings and credit: No credit without savings, no savings without credit!

Savings and credit can be linked on two different levels:

(1) There may be a joint credit savings scheme in which a loan is contingent upon every individual client meeting specified savings requirements.

(2) There may be separate savings and credit schemes, each with its own set of clients. In this case, the bank mobilizes its own resources through a savings scheme but does not require its borrowers to meet any savings requirements.

Both types of linkages are viable and feasible. The second case of separate schemes is well known. The first type would be a financial innovation to most banks. The following presentation is therefore confined to this type.

Sources of savings generated by IFI/SHO may include entrance fees, equity share capital, compulsory regular savings, voluntary savings, rotating savings, savings in kind and savings derived from income-generating activities.

These savings may enter into two different cycles:

- An IFI/SHO may set up an internal loan fund for immediate relending to members; these loans may be used for emergencies, consumptive or productive purposes;
- a certain amount of its internal funds may be deposited

with a bank as collateral within a contractual loan savings scheme. These loans may be reserved for working capital or investment.

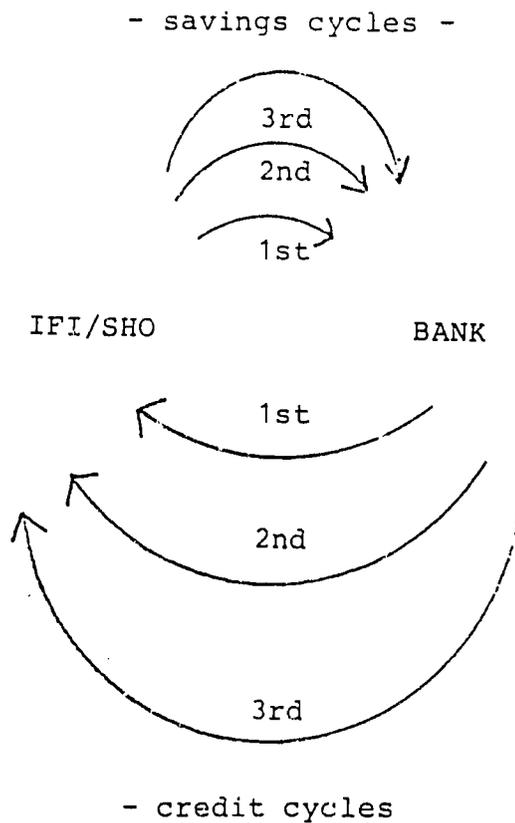
For the internal loan fund, we recommend a fixed ratio between savings and credit. This ratio would be mainly contingent upon the availability of funds.

For the loan savings scheme, a dynamic ratio is recommended. Savings are deposited as collateral, and the amount of credit is contingent upon two factors:

- the amount of savings deposited, and
- the number of cycles of satisfactory repayment (repeat loans),

resulting in augmenting cycles of savings and credit and providing a strong double incentive to save and to repay on time.

Exhibit 2: Dynamic financial linkage model



For example, after an initial period of regular savings, say of one year, the SHO obtains a loan equal to twice the amount of accumulated savings. After the principal and interest have been duly paid back and the group has continued to adhere to its self-imposed savings schedule, it may obtain a second loan, this time three times its savings. Subsequently, the multiplier may continue to increase by a value of one or by a different point value, provided repayments and savings collection have been satisfactory.

6. Operational Guidelines and Procedures

There are ten major operational elements in program implementation:

(1) Working out and testing guidelines for linkages between IFI/SHO and banks, with specific provisions concerning obligations, liabilities, by-laws, savings, credit, accounts, interest rates, book-keeping, collateral, reinsurance, mutual information, termination and liquidation, registration and arbitration.

(2) Guidelines for relations between IFI/SHO and their member-microentrepreneurs.

(3) Definition and coordination of institutional tasks and activities for microenterprises and banks and possibly for central bank and for governmental and nongovernmental SHPI.

(4) Survey & Mobilization Campaign as a grassroots strategy, which is to gather data and activate the participants at the same time. S&M is a methodological tool,

- To provide banks with the necessary information about IFI/SHO;
- to provide IFI/SHO with the necessary information about the bank, its personnel and the linking scheme;
- to establish effective communication between IFI/SHO and bank personnel as well as local authorities and SHPI, if any;
- to initiate the linkage procedure.

(5) Communication and training measures for national and local policy makers and for participating staff from IFI/SHO and banks through national seminars and local workshops.

(6) Upgrading of IFI/SHO to higher organizational levels, institutional skills and financial practices.

(7) Institutional adaptation of banks to their environment, "taking the bank to the people". This may involve the adoption of practices hitherto characteristic of IFI ("downgrading of banks").

(8) Monitoring and evaluation

(9) Supporting technical services concerning management and production technology, supply, marketing, finance and training, varying in intensity between phases of limited growth and of more rapid development.

(10) Providing and coordinating sources of refinance from banks, government and donors. (cf. Seibel & Marx 1987)

7. Case Studies from Africa

7.1. Initiatives from Below

PRIVATE DEPOSIT COLLECTION IN WEST AFRICA. Daily deposit collection is an IFI which mainly operates on markets in West Africa (ajo, anago susu, jojuma, yesyes, etc.). The deposit collector may serve between 200 and 600 clients a day, collecting a fixed, or sometimes variable, amount from each which he enters onto a printed card. By the end of the month he returns the total, keeping the amount of one daily deposit as a fee. As an extra service, clients may obtain short-term loans of up to 50% of the monthly total free of interest. Participants are micro-entrepreneurs in trade, crafts, restaurants and transportation.

The efficiency of this IFI is far beyond that of any bank. The average length of a savings transaction in Accra and Kumasi was found to be 17 seconds, a lending transaction between 40 and 60 seconds. With time input as the main cost factor, transaction costs were minimal for the itinerant banker and for the client. There are several links to other financial institutions:

- Participants may use half of the monthly returns for the purchase of supplies; the other half is put into a RoSCA.
- When their turn comes in the RoSCA, they may spend it or put it into a bank account.

- All daily deposit collectors have bank accounts on which they deposit the collections, usually with a one-night delay because of unsuitable banking hours.
- In some countries, the ajo or anago susu are registered, tax-paying enterprises. In Accra, 300 of them have formed the Greater Accra Susu Collectors Association, which is registered and keeps its accounts with the National Savings and Credit Bank of Ghana. As NSCB does not meet GASCA's financial requirements, it is now in the process of establishing its own formal bank.
- In Lagos, Nigeria, experiments were carried out between 1960 and 1980 to organize ajo-participants into cooperative societies and to link them to banks. By extending credit before sufficient savings were deposited, the self-help principle was violated, and the cooperatives collapsed. (Seibel & Marx 1987:21-22, 68-69)
- In Niger, a model has been worked out in 1987/88 for the Caisse Nationale d' Epargne to directly utilize the daily deposit collection system as a basis for financial services to microenterprises.

LINKING IFI AND COOPERATIVES IN THE CONGO. Between 1983 and 1985, a first set of eleven savings and credit cooperatives (COOPEC) was set up in the Congo. In Kinkala, a small rural town, a COOPEC of 268 members is located next to the market place. Its members are microentrepreneurs and salary earners. On the market, there are several IFI, among them a RoSCA with 24 members. Monthly contributions are F CFA 2,000. Thus each member receives the total of F CFA 48,000 once every two years. At its own initiative, the IFI has linked up with the COOPEC. The members, who participate in both organizations, now pay their monthly contributions to the manager of the COOPEC, who deposits the F CFA 48,000 in the savings account of the recipient, which in turn improves his credit rating with the COOPEC. (Seibel 1987b)

LINKING IFI AND COMMERCIAL BANKS IN NIGERIA. Eha Amufu is a rural town of 10 adjoining villages with 30,000 inhabitants, located in Isi Uzo Local Government Area, Anambra State. There are two commercial bank branches in the district. Self-help

activities and organizations have a long tradition among the local Igbo population. Since the money economy started spreading in the late 1930s, rotating savings associations, *isusu*, have grown in number and importance; they are now ubiquitous. During the last twenty years, most of them have started to build up permanent loan funds, and many have engaged in joint projects.

In conjunction with a survey on cooperatives and IFI in early 1984, the author was approached by several IFI executives. Their problems were the inadequacy of savings for larger investments, lack of refinance and lack of consultancy services for micro-enterprises. As a result of the discussions, the executives approached the managers of a local bank in April 1984, established *Isi Uzo SHO* in April 1985, which is an umbrella organization of 40 IFI, and concluded a savings and loan agreement with one of the commercial banks: member societies deposit regular savings with the bank as collateral and obtain group loans for on-lending. Between April and December 1985, the first 14 IFI had deposited N 16,160 and the first ten of them had obtained N 18,000 in credit by August 1986. *Izi Uzo SHO* is now in the process of using 5% of its savings to employ its own micro-enterprise consultant, arguing that the state's extension services are of little practical use. (Seibel & Marx 1987:78-81)

7.2. Initiatives from Above

LINKING IFI AND BUSINESS ORGANIZATIONS OF MICROENTREPRENEURS TO A SAVINGS BANK IN TOGO. IFI of the rotating type were first noted early this century by ethnologist Westermann. Today three major types are in existence: rotating savings associations with weekly or monthly contributions (*sodzodzo*, *sodyodyo*, *aboo*); daily deposit collection (*yesyes*, *jojouma*); and a combination of the two, in which a cashier collects fixed amounts every day from each participant and one at a time receives the total collection at the month's end. In addition, there are two principal types of business organizations of microentrepreneurs: market women and traders are organized in product associations of 2-300 members each, and a relatively small number of craftsmen in employers' unions. They have virtually no access to institutional credit.

When the Savings Bank of Togo, CET, opened a branch on the central market of Lomé, it embarked on a new course of banking for microenterprises, with craftsmen's and market associations and their IFI as target groups. As described in chapter 5, the craftsmen agreed to deposit their receipts from RoSCA in a group account with the CET. The group obtains a loan from the CET for on-lending to its members, while the savings deposits serve as collateral. A similar system is being introduced among market-women and traders on the central market of Lomé, creating the following links between IFI and CET:

- Market associations deposit their funds derived from weekly or monthly contributions with the CET;
- the members of RoSCA within the market associations are to be given the opportunity of depositing their funds with the CET and act as a credit guarantee groups for loans from the bank;
- participants in the daily deposit system are to be given the opportunity to make their deposits to a CET agent rather than an anonymous collector;
- the possibility of direct collaboration with the daily deposit collectors is being explored.

The links between IFI and CET have two major implications: upgrading of the business organizations of the microentrepreneurs and of their IFI; and downgrading of the CET in the sense of simplifying its banking procedures and of adopting some of the people-oriented practices of the local IFI. (Seibel & Marx 1987:58-63)

LINKING IFI OF RURAL MICROENTREPRENEURS TO A DEVELOPMENT BANK IN IVORY COAST. There are some 50-60 ethnic groups in Ivory Coast which fall into four major ethno-linguistic groups: Kru, Gur, Akan and Mande - varying from highly decentralized and segmentary to centralized and state societies. These socio-political orders are in turn related to culture patterns, value orientations and personality traits, varying along such axes as status equality to inequality and achievement to ascription. All these variables enter into a highly complex web of determinants of receptivity to change. (Exhibit 3)

Major types of IFI are hired work associations with primary financial functions ("Work is money!" as one participant put it), rotating savings associations and non-rotating SCA. In addition, there is the daily deposit collection system, which is purely urban. There are wide variations according to ethnic groups. The economy of the Mande-speaking Dan and Malinke is entirely dominated by financial and non-financial SHO. Among the Senufo (Gur), rotating work associations are universal, while IFI are entirely absent. Among the Agni and Baulé (Akan) as well as among the Guéré and Bété (Kru-speakers), IFI are important. With monetization of the local economy as the chief determinant, three tendencies of change have been observed over the past thirty years: from work associations to financial SHO; from rotating savings associations to non-rotating groups with permanent revolving loan funds; and from mutual assistance and insurance to interest-bearing loan funds. Geographically, IFI have spread from rural to urban areas where they have made inroads into virtually all occupational groups. Sectorally, they first expanded in two sectors: agriculture and trade. From there, they spread to other microenterprises, particularly small crafts and transportation. They are also widespread among blue and white collar employees.

The core problem of the Ivorian IFI is the lack of access to refinancing institutions and to financial consultancy services.

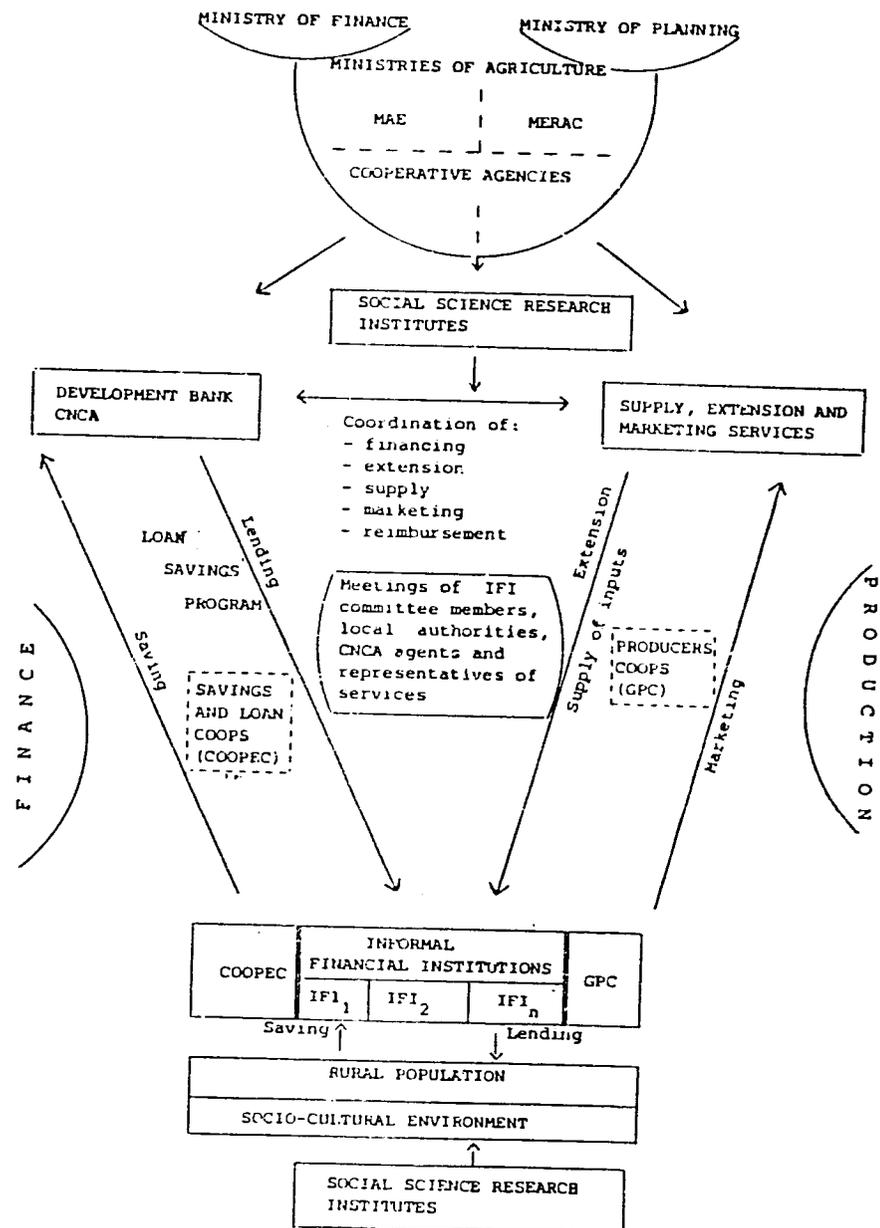
Prominent among banks which intervene in rural areas is the agricultural development bank BNDA, which plans to step up its decentralization to reach all 750-900 central villages of the country within the next five years. In this process, a linkage model has been worked out as a grassroots intermediation system for IFI of agricultural and nonagricultural microenterprises (Exhibit 4). A prerequisite for successful interventions is the adaptation of strategies to local and regional sociocultural conditions along the following lines:

- Local banking and supporting technical services are linked to indigenous IFI;
- local IFI of microentrepreneurs are promoted within the framework of the relevant socio-political entity, which may be the village, as among the Senufo, or the quarter, as among the Dan and Malinké, or the household as among the Kru

Exhibit 3: Social systems and intervention strategies in Ivory Coast

	Social system (ethno-linguistic group)			
	Kru	Gur	Akan	Mande
Descent system	Patrilinear	Patri- or matri-linear, acc. to ethnic group	Matrilinear (except two ethnic groups)	Patrilinear
Socio-political system	Segmentary and decentralized	Segmentary with hierarchy controlled by secret society	Centralized differentiated state society	Centralized (Malinke: state society)
Agents of social control	Decentralized secret societies	Centralized secret societies	The nobles (sacred chair holders)	The nobles
Social stratification	Equalitarian social order; equal opportunities; unstable inequalities as a result of individual achievement	Social classes based on initiation and age groups	Three estates: nobles, freemen, prisoners/slaves	Caste society
Social mobility	Extensive upward and downward mobility; pronounced competition for success	Upward mobility based on initiation into age groups; absence of free competition	Controlled mobility in ec. and religious spheres; absence of socio-political mobility	Mobility in economic and religious spheres within castes; absence of socio-political mobility
Integration into monetary economy	Low degree of integration	Weak and late integration	Early and intensive integration	Moderate to strong integration
Crucial problems	Reconciling individual success with social equality	Unquestioning acceptance of authority and tradition by the young	Reconciling individual achievement with hereditary inequality	Confining individual achievement to caste limits
Development approach	From below: grassroots approach	From above: through secret societies and chiefs	From below and from above	From above and below

Exhibit 4: Model of intervention in Ivory Coast



and Guéré;

- interventions are adjusted to local decision-making and allocative processes, yielding three different types of strategies: a strategy of development from below with broad grassroots participation in decentralized segmentary societies; a strategy of development from above with primary involvement of local authorities and social control agents in centralized societies with restrictions on socio-economic mobility; a mixed strategy of development from below and above in complex societies with elements of decentralized decision-making and centralized control, or simultaneous achieved and ascribed criteria of role and reward allocation. (Exhibit 3)

Given the variety of IFI and the diversity of sociopolitical systems, the linking of informal and formal financial institutions can only follow a certain procedure, not a fixed model. Procedural guidelines include,

- A Survey and Mobilization Campaign;
- initiation of appropriate participation processes;
- linking IFI to the BNDA, involving cooperatives, chambers of crafts and other development organizations as second-tier intermediaries as seen fit (cf. 5.1);
- establishing a loan savings scheme for IFI of microentrepreneurs, to be administered by BNDA (cf. 5.2);
- monitoring and evaluating the linkages (Seibel 1987a).

THE EMERGENCE OF MICROENTERPRISE ORGANIZATIONS WITH THEIR OWN BANK IN RWANDA. Rwanda is a country with very limited microenterprise traditions outside of agriculture. IFI in the form of RSA are widespread. Rwanda has demonstrated that in spite of very adverse conditions, effective business organizations of micro-entrepreneurs can emerge; and that they can establish their own formal financial institutions, by-passing the linkage stage.

Most modern crafts developed after independence in 1962 when the capital Kigali had 7,000 inhabitants. Today, Kigali has some 200,000 inhabitants and a full range of modern crafts. It is also the place of one of the most successful craft development projects, initiated by Jeunesse Ouvrière Catholique and

subsequently promoted by the ILO. By 1986 there were 61 unions of 1600 craftsmen in Kigali plus an umbrella organization, KORA. Guiding principles are self-help, self-organization, self-financing and self-training, plus joint efforts in supply and marketing. Each union follows a policy of savings mobilization, with weekly or monthly contributions depending on the financial capacity of each union. This is paralleled by the emergence of 88 cooperative People's Banks, with savings and credit activities of predominantly small entrepreneurs. The two approaches of craft unions and of savings and credit cooperatives overlap in that KORA has now established its own People's Bank as the housebank of the craft unions, headed by a craftsman. This Banque Populaire KORA is a successful example of upgrading savings and credit activities of business organizations of craftsmen to a formal financial institution of their own making. The approach has recently (1985) been extended by the ILO to the provincial towns of Butaré, Gisenyi and Ruhengeri.

8. Case Studies from Asia

There are many varieties and large numbers of IFI of local origin in Asia, most prominent among them perhaps hui in China and Vietnam, chitfunds in India and Sri Lanka, arisan in Indonesia, kye in Korea and paluwagan in the Philippines. In some countries, indigenous IFI and SHO initiated by governmental and non-governmental SHPI overlap to a large extent. There are many linkage experiences in Asian countries. Only the linkage program of APRACA will be reported here, which is the broadest and most ambitious one.

APRACA, the Asian and Pacific Regional Agricultural Credit Association, is one of four RACAs originally promoted by the FAO. Established in 1977 as an association of central banks and agricultural credit institutions, it subsequently shifted its emphasis to rural finance. Under its chairman G. B. Thapa, Governor of the Central Bank of Nepal, and its secretary-general B. R. Quinones, a program of the promotion of linkages between banks and rural microenterprises was adopted by the member countries at a workshop in Nanjing, China, in May 1986. The main

focus of the program is a financial intermediation system built around IFI/SHO, with the double purpose of savings mobilization and credit delivery. While three different approaches have been discerned,

- Upgrading IFI/SHO of microentrepreneurs;
- linking IFI/SHO and banks; and
- institutional adaptation of banks to their environment,

the linkage program has been chosen as an approach which may eventually include upgrading and downgrading measures. While the essence of the program during its first year of existence was close to what has been presented in chapters 5 and 6, the emphasis is not on a particular model of linkages but on the initiation of processes of interaction and dialogue resulting in appropriate national and local activities to promote the financial system of and for agricultural and nonagricultural micro-enterprises.

Supported by international consultations, the following procedures have been worked out by APRACA:

- Establishing a national task force, which may comprise banks, SHO networks and NGO, in close collaboration with the respective APRACA National Committee;
- setting up a national survey team; adapting survey instruments provided by APRACA to the national situation and carrying out a survey on IFI/SHO;
- analyzing the survey results and working out alternative linkage models and procedures;
- organizing a national seminar of policy makers and representatives of the participating groups and institutions to present, discuss and finalize the survey results and the proposed program;
- carrying out a pilot project to implement the linkage program on an experimental basis;
- implementing the linkage program on a national scale.

So far, pilot projects have been designed by Indonesia, Nepal, Philippines and Thailand, while Bangladesh, India, Pakistan and Sri Lanka are in the survey and program preparation stage.

Program activities in the pilot project phase may include,

- (1) Selecting participating institutions, fulfilling linkage

prerequisites to be defined

(2) Finding operational solutions to the problem of lack of legal status of IFI/SHO

(3) Selecting institutional linkage models between banks, IFI/SHO and possibly governmental and non-governmental SHPI

(4) Selecting financial linkage models, with credit linked to savings: of microentrepreneurs with IFI/SHO and the latter with banks

(5) Working out interest rates for bank loans to IFI/SHO and SHO loans to members, covering the costs of funds, transaction costs and risks, plus an adequate profit margin to finance the growth of the program

(6) Working out collateral and liability requirements, plus possibly a risk management service and a credit guarantee scheme from internal sources

(7) Defining loan purposes for members' activities on an evolutionary scale, from emergency, consumption and durables, mainly from IFI/SHO funds, to working capital and investment from combined IFI/SHO and bank sources, and group activities, which may include finance (on-lending), supply and marketing, in some cases also production

(8) Working out and testing operational guidelines

(9) Defining institutional tasks for a lead agency, IFI/SHO, central bank, handling bank and possibly SHPI

(10) Coordinating linkage activities on a national and a local level, with loops to the international level

(11) Carrying out survey & mobilization campaigns as a grassroots implementation procedure

(12) Providing training and communication facilities to national policy makers, trainers, community leaders, bank field staff and IFI/SHO executives

(13) Initiating regular monitoring and periodic evaluation activities, measuring the financial performance of the program and its impact on microenterprises

(14) Coordinating supporting technical services by other development agencies

(15) Assisting IFI/SHO in upgrading to higher organizational levels and improved business practices

(16) Promoting banks' adaptation to their environment, by simplifying banking operations and adopting some of microenterprise-oriented financial practices of IFI.

Four case studies will be presented below, with brief descriptions of participating institutions, program initiatives, linkage models and project organization.

In Indonesia, a country of great cultural and ethnic diversity, most adults belong to one or several IFI/SHO of overlapping origins: indigenous, governmental and non-governmental. There is a moderate number of NGO, some of which work with SHO and microentrepreneurs. There is a complex, liberalized banking system comprising 116 primary and 5948 secondary banks and non-banking institutions. The bank with the largest rural network is Bank Rakyat Indonesia (BRI), with 3499 field offices.

Program initiatives were first taken by the central bank, Bank Indonesia (BI), by establishing a national task force of BI, BRI and Yayasan Bina Swadaya, a leading NGO.

Two linkage models are to be tested:

- Direct linkages between IFI/SHO and banks;
- indirect linkages, mediated by NGO and GO-SHPI.

BI is the lead agency, which plans, supervises and coordinates the linkage activities. BI implements the program through various banks, in close collaboration with NGO as secondary intermediaries or consultants where they exist. (Exhibit 5)

The pilot project, which competes with BI's own non-commercial working-capital and investment credit program for microentrepreneurs (KIK/KMKP), starts in mid-1988 with technical assistance from GTZ (Germany).

In Nepal, a very poor country of considerable ethnic and caste complexity, formal SHO such as cooperatives were found ineffective, with low repayment rates and little impact on members' enterprises. There are several types of semiformal SHO initiated by GO. Large numbers of indigenous IFI/SHO of fourteen different types have been identified in a survey. Despite very low incomes, rotating and nonrotating SCA were found to be prominent, within and across caste and ethnic lines. In the past,

SHPI have established their own SHO, ignoring the existing indigenous ones. There are very few NGO in Nepal. There is an extensive rural banking network of one development bank and two commercial banks.

In collaboration with APRACA-NCC, the central bank, Nepal Rastra Bank (NRB), established a national task force of all banks with a rural network, which also provided the staff of the survey team.

Four models are to be tested in the pilot project:

- IFI/informal SHO as collecting agencies, with direct credit delivery from the bank to the microentrepreneurs;
- IFI/informal SHO as joint liability groups for group projects;
- IFI/informal SHO as joint liability groups for onlending;
- IFI/informal SHO turned into formal registered groups as on-lending agencies of banks.

The linkage project will be part of the Lead Bank Program, in which one bank in a given area is designated to coordinate the development activities of all banks and line agencies. The central bank will be directly involved in project implementation on the field level, in close collaboration with the respective lead bank and the other participating banks. (Exhibit 6)

The Philippines are a country of great social and political complexity, which is only matched by the complexities of its IFI/SHO, NGO and banking systems. In the SHO survey, large numbers of formal, semiformal and informal groups were identified, with primary and secondary financial functions, of ancient and recent local origin as well as those initiated by NGO and GO, cutting across all sectoral lines. Examples of SHO with savings and credit activities are indigenous ROSCA with or without a loan fund, savings and credit clubs, credit unions, privately organized, as opposed to government-initiated, cooperatives, occupational and trade associations, interest associations, religious societies, etc. In addition, there is a very strong NGO sector with numerous umbrella and apex organizations. There are 1,020 banking institutions, among them 871 Rural Banks and 116 thrift banks; 1,898 non-bank financial intermediaries, among them 1,143 pawnshops and 82 non-bank thrift

institutions.

First program steps were initiated from below, which is typical for the Philippines: from SHO and NGO who responded to APRACA's call by forming their own network: People's Council of Rural Savings and Finance, Inc., PCRSF, with 24 NGO members which comprise over a thousand FHO with more than 100,000 individuals.

Three models are to be tested in a pilot project:

- Direct IFI/SHO-bank linkages, with NGO in a consultative role;
- indirect linkages, mediated by NGO;
- linkages of IFI/SHO to an NGO central fund upgraded to a banking institution.

There is a complex project organization. Together with APRACA-NCC, PCRSF established the Intersectoral Consultative Group, an informal body for the elaboration and coordination of the proposed linkage program. This body in turn cooperates with the Agricultural Credit Policy Council, ACPC, an interministerial policy coordination body for rural finance. Designated project holder is the Land Bank of the Philippines, an APRACA-NCC member with a rural mandate. The project is implemented through two channels: by PCRSF through its member NGO, some of which are in the process of establishing their own formal financial institutions; and by the Land Bank through local banks and bank branches. Training of NGO staff and SHO executives will be carried out by one of the member NGOs specialized in that field; training of bank staff by CENTRAB, a bank training institute set up by APRACA in collaboration with the central bank's training institute. (Exhibit 7)

In Thailand a socially and politically monolithic country, there are 6,647 cooperatives and formal farmers' associations, 6,374 semiformal savings and credit groups set up by the Community Development Department, 21 "Saccakorn" savings and credit groups initiated by an NGO and a large number of indigenous SHO, among them rotating and non-rotating SCA with payments in cash (pia-huay) or kind. Women are prominent in informal RoSCAs. The Government Savings Bank is presently preparing a survey of IFI/SHO among urban microentrepreneurs. NGO are few. The banking system is rather restricted. Among the banks

with a rural network, the Bank of Agriculture and Agricultural Cooperatives, BAAC, is prominent, with 582 field offices, which in turn work with 96,000 informal credit guarantee groups.

Survey and program preparation activities have been initiated and carried out by BAAC in collaboration with APRACA-NCC.

Three linkage models will be tested:

- IFI/SHO as credit guarantee groups and collecting agencies, with direct bank-lending to microenterprises;
- IFI/SHO as full-fledged financial intermediaries;
- IFI/SHO as financial intermediaries, with technical assistance to be provided by GO- and NGO-SHPI.

The project design is straight-forward, with BAAC as the lead agency and the main bank, establishing links with IFI/SHO of microentrepreneurs. SHO initiated by the Community Development Department and the Thai DHRRA Foundation are to be included. (Exhibit 8)

Exhibit 5: Project organization in Indonesia

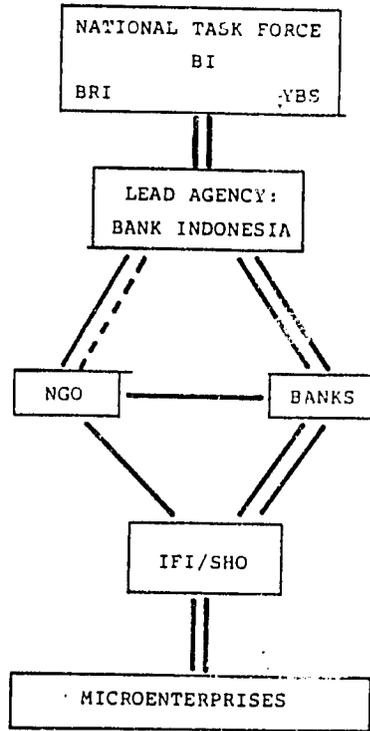


Exhibit 6: Project organization in Nepal

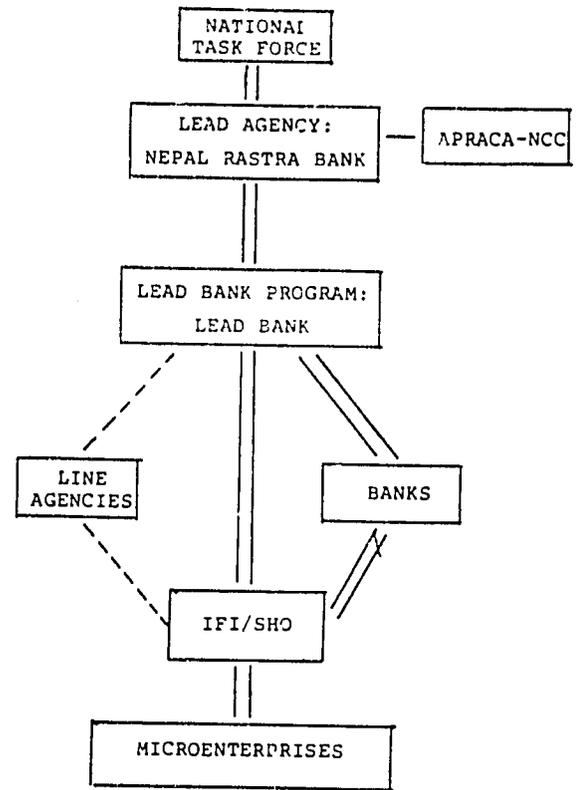


Exhibit 7: Project organization in the Philippines

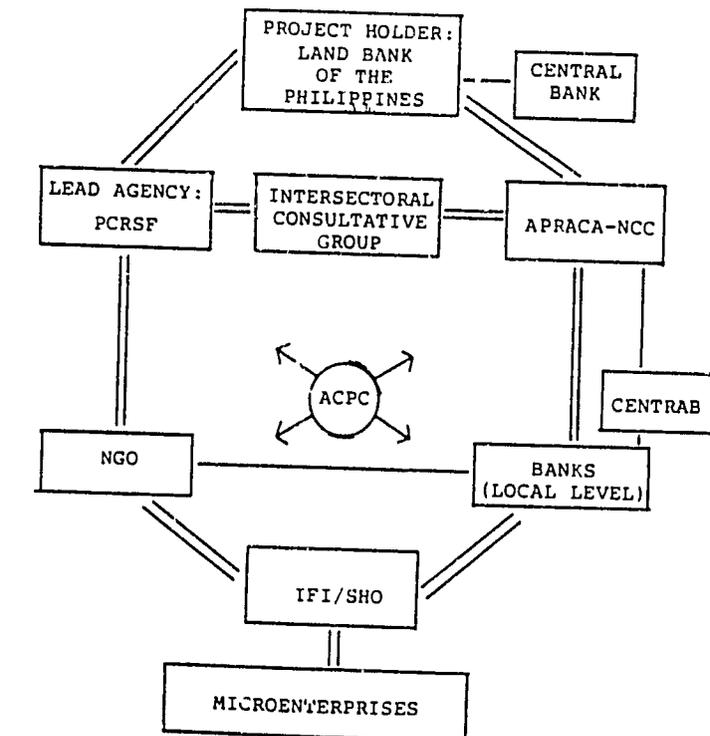
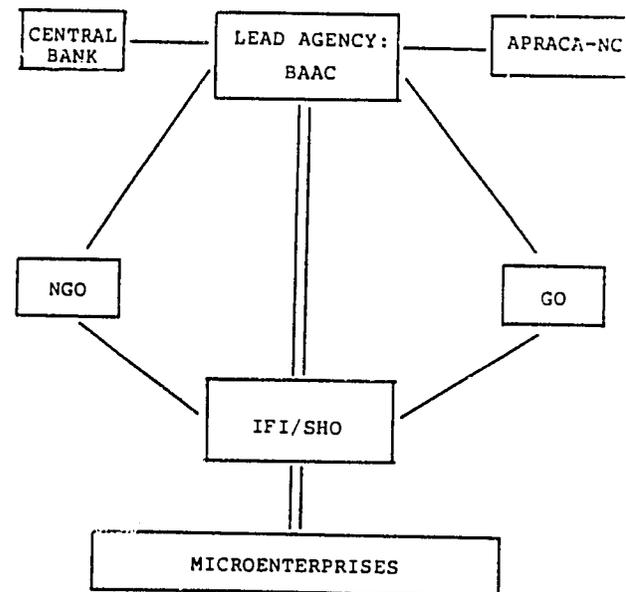


Exhibit 8: Project organization in Thailand



9. Conclusion: Five Messages of Microenterprise Development

How can the rotating dhikuti in Nepal be linked to banks without giving up its substance? There are two requirements of change for the dhikuti: from a temporary to a permanent group; and from impermanent to permanent fund formation. The latter may be accomplished without relinquishing the principle of rotation: by using bidding gains for fund formation, rather than the lowering of individual contributions. Other than that, their internal structure and functioning will remain untouched: a micro-entrepreneurs' informal self-help bank, but now linked to a formal financial institution as a source of refinance.

There are of course risks that the linkages may be used, or abused, to gain undue, or premature, control over IFI/SHO. However, no government has yet succeeded in gaining unwanted control. If pressures become too strong, the groups will simply go back to where they came from: underground.

There are five principal messages to policy makers to be derived from the linkage experience:

- (1) Include both formal and informal sector microenterprises in your target group
- (2) Develop financial programs for microenterprises along commercial lines
- (3) Utilize the existing organizational and institutional resources
- (4) Build a financial intermediation system, linking IFI/SHO of microentrepreneurs to banks
- (5) Include combined savings mobilization and credit delivery schemes in the program.

In the implementation, international and national programming and steering units may be instrumental and deserve particular support.

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Systèmes socio-culturels en Côte d'Ivoire: caractéristiques principales des groupes ethniques

Groupe ethno-linguistique	Système de filiation	Ordre socio-politique	Agents de contrôle social	Stratification sociale	Mobilité sociale	Intégration dans l'économie monétaire
Krou	Patri-linéaire	Segmentaire, décentralisé	Sociétés secrètes sans hiérarchisation de l'ordre socio-politique	Egalitaire (égalité d'origine)	Mobilité générale ascendante et descendante dans tous les domaines de la vie; concurrence et compétition prononcées.	Monétarisation faible
Gur/ Voltaïque	Patri- ou matrilineaire selon les sous-groupes	Segmentaire mais hiérarchisant l'ordre socio-politique et économique	Poro, société secrète hiérarchisant l'ordre socio-politique et économique	Classes sociales stratifiées sur base de groupes d'âge selon le degré d'initiation	Mobilité ascendante sur base d'initiation en groupe d'âge; pas de concurrence libre	Monétarisation très faible et tardive
Akan	Matri-linéaire (sauf chez les Abbey et Godè)	Centralisé, étatique	Les nobles (possesseurs des chaises sacrées)	Trois états: nobles, hommes libres, captifs et leur descendants	Mobilité sociale contrôlée: mobilité limitée à la sphère économique et religieuse, pas de mobilité au niveau socio-politique (positions héréditaires)	Monétarisation forte; contact long et intensif par ordre historique avec l'économie moderne
Mandé	Patri-linéaire	Centralisé (Mandé du Nord: étatique)	Les nobles	Société	Mobilité économique et religieuse dans la limite des castes; absence de mobilité sociopolitique (positions héréditaires)	Degré moyen d'intégration dans l'économie monétaire

Développement agricole par la coordination des activités des institutions financières informelles (IFI) et des structures de développement sur le niveau local

